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SUBJECT: SCENESETTER FOR JOSEPH WOOD'S VISIT

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Classified By: A/DCM Joan Polaschik for reasons 1.4 (b, d)

¶1. (C) We warmly welcome your upcoming visit to Baku. Since President Aliyev,s successful visit to Washington in April 2006, we have been engaged in an intensive effort to elevate and strengthen the bilateral relationship. US interests in Azerbaijan center around three key areas: regional security and the Global War on Terrorism; energy security; and political and economic reform. Our interests depend on progress in all three areas, as our excellent, ongoing cooperation in security and energy require the long-term prosperity and stability that only democratic, market-oriented institutions can deliver. While Aliyev and his Government support US security and energy objectives, their performance on political and economic reform has been slow and halting. Many in Aliyev,s Cabinet continue to view political reform as a threat to their own power, perquisites, and the stability of their regime. We believe that continued, high-level engagement by the United States is needed to advance our objectives and particularly to encourage the reforms that are essential to true, long-term stability in this strategically important country.

#### Why Azerbaijan Matters

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¶2. (C) Because of its location and natural resources, Azerbaijan is an important partner for US interests in Eurasia. Azerbaijan is located in the greater Caspian Sea basin, which is an important corridor for advancing freedom and long-term security in Eurasia -- particularly as Azerbaijan strengthens its relations with Georgia -- and diversifying and securing Europe's energy sources. Azerbaijan's shared borders and delicate relations with Iran and Russia touch upon our interests in positively influencing Iranian and Russian behavior. Azerbaijan's proximity to the Middle East, active engagement with the Muslim world, and its desire to partner with the US beyond the immediate Caspian basin -- in Afghanistan, Iraq, Kosovo, and in promoting a message of tolerance and coexistence in the Muslim world -- further reinforce Azerbaijan's significance for the USG as a security partner.

#### Strong Security Cooperation

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¶3. (C) Azerbaijan is a strong partner in the Global War on Terror. In Iraq, 151 Azerbaijani soldiers stand alongside US Marines guarding the Haditha Dam. Azerbaijan is also contributing troops in Afghanistan - and has pledged to

double its contingent - and peacekeepers in Kosovo. Azerbaijan provides blanket overflight and landing rights for coalition aircraft bound for Iraq and Afghanistan, and also provides strong information sharing and law enforcement cooperation in fighting terror.

¶4. (S/NF) Azerbaijan's primary foreign policy goal is to maintain its independence and sovereignty, including through a solution to the Nagorno-Karabakh conflict. To this end, Azerbaijan since the mid-1990s has pursued a policy of integration with the Euro-Atlantic structures, such as NATO and the Council of Europe, and is actively engaged in the OSCE Minsk Group-led peace process to resolve the Nagorno-Karabakh conflict. Azerbaijan maintains a cautious balance in its relationships with Russia and Iran, convinced that careful, correct relations are necessary to protect its interests vis-a-vis its two powerful neighbors. President Aliyev and other senior GOAJ officials repeatedly have emphasized that the US-Azerbaijani relationship is a key foreign policy priority, primarily to protect Azerbaijan's independence. Our bilateral military relationship is strong and growing, as is our counter-terrorism cooperation. US objectives could be greatly enhanced by still further cooperation, such as NATO-compatible upgrades to Nasosnaya Air Field and a Train and Equip program.

¶5. (C) As the United States considers options to increase the non-military costs to Iran of its destabilizing policies of proliferation and support for terrorism, Azerbaijan could serve as a key ally in our efforts. President Aliyev and other senior GOAJ officials repeatedly have expressed their interest in increasing the level of bilateral dialogue on Iran, and we believe the United States could benefit in very concrete terms from enhanced cooperation with Azerbaijan.

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Yet at the same time, President Aliyev and his national security advisors have expressed concern -- at increasingly serious levels -- about the very real threats posed by Iran to Azerbaijan's security and stability.

¶6. (S/NF) We suggest you raise the following points regarding our security cooperation with GOAJ officials:

--Azerbaijan is an important and trusted security partner, and the USG is committed to Azerbaijan's sovereignty and territorial integrity. We are grateful for the GOAJ's many contributions to the GWOT -- such as participating in Coalition operations, overflights, and intelligence exchanges -- that demonstrate your commitment to combating a scourge that knows no national boundaries.

--We appreciate that Azerbaijan is in a difficult geopolitical neighborhood and respect the challenges your government faces in maintaining its sovereignty vis-a-vis Russia and Iran. We welcome any perspectives you may have on these complex relationships. We also welcome your thoughts on potential areas of cooperation in managing the consequences of Iran's nuclear program, proliferation activities, and support for terrorism.

--We encourage the GOAJ to pursue closer relations with NATO and continue along the path of defense reform.

--We continue to support your efforts for closer integration with the West, most notably with your aggressive NATO-IPAP goals. We welcome your goal to develop an airbase for NATO gas and go operations, and would like to discuss the possibility of developing a Train and Equip program.

Bolstering our Energy Cooperation  
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¶7. (C) Apart from their revenue-generating value, it is difficult to underestimate the importance that the GOAJ assigns to the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and

South Caucasus Gas Pipeline (SCP) as symbols of regional prestige and geo-strategic independence. The start-up of these two major projects signals the end of the first phase of post-independence Azerbaijan energy development. The next phase will include additional development of the Shah Deniz gas and condensate mega-field, developing the ACG "Deep Gas," and encouraging westward trans-shipment of Kazakh and Turkmen energy through Azerbaijan to Europe.

18. (C) In this vein, we have been engaging with the GOAJ on two energy priorities: (1) Ensuring that Turkey and Azerbaijan reach a gas transit agreement for the transit of Azerbaijani gas through the South Caucasus Pipeline. This agreement will help assure European consumers that Azerbaijan is a reliable gas supplier, and is an essential prerequisite for supplying Caspian gas to Europe. (2) Encouraging trans-Caspian cooperation among Azerbaijan and Turkmenistan and Kazakhstan. Although the trilateral May energy summit in Turkmenbashi among Presidents Berdymukhamedov, Nazarbayev, and Putin and related agreement was a step back for the USG interest in creating a trans-Caspian oil and gas transit corridor, Turkmenistan still has abundant gas reserves in offshore fields close to the existing Azerbaijan underwater pipeline grid, such that with the addition of only approximately 60 kilometers of underwater cable, Turkmen gas could transit Azerbaijan. The barrier to such a possibility is political, not technical or legal. The GOAJ has placed a priority on renewing ties with Turkmenistan since former Turkmen leader Niyazov died last year. During the summit in Turkmenbashi, President Berdymukhamedov also indicated he was keeping his options open, noting that the USG-backed trans-Caspian pipeline "has not been completely dropped."

19. (C) We suggest you raise the following energy-specific points in your meetings with GOAJ officials:

--We believe a gas transit between the governments of Azerbaijan and Turkey is a critical next step in assuring potential European gas consumers about Azerbaijan's ability to deliver gas to European capitals. Has there been any progress toward reaching an agreement?

--We paid close attention to the recent agreement among Kazakhstan, Turkmenistan and Russia to create a new pipeline to carry Turkmen gas to Russia. We welcome your perspectives

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about this development and possible next steps in creating a trans-Caspian gas corridor. We also welcome your perspectives on progress your government has had in cultivating closer ties with Ashgabat on a trans-Caspian pipeline.

Backsliding on Reform  
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110. (C) Like most former Soviet states, Azerbaijan's political system is overpersonalized and underinstitutionalized. Azerbaijan's system is strongly presidential with a small pool of elites controlling different sectors of the economy and domestic political life. Western-style political institutions such as political parties, a free and critical media, and an engaged citizenry are nascent or immature. Supporting these institutional developments requires sustained engagement at the most senior levels of the GOAJ. Our efforts to develop democracy focus on encouraging the five "pillars" of democracy: the rule of law, the political process, media freedom, respect for human rights, and an empowered and educated citizenry. We also leverage our close relationship with President Aliyev and other senior officials to highlight the importance of our reform agenda.

111. (C) The most serious and immediate obstacle in our democracy promotion efforts is a decline over the past year

in media freedom. The GOAJ has taken steps that have shut down, constrained, or intimidated local media outlets that criticized the GOAJ or well-connected insiders. Most of the episodes have a fig-leaf of legitimacy through selectively applied laws, but the perception of local journalists is that the GOAJ seeks to intimidate or close down media outlets that are too outspoken. In the most recent case, officials from the Ministry of Emergency Situations closed Azerbaijan's largest circulation newspaper, on grounds that their offices were unsafe (ref). The papers' Editor-In-Chief Eynulla Fatullayev is currently serving a 30-month prison sentence on criminal libel charges for allegedly penning some controversial comments related to the Nagorno-Karabakh conflict. There has been a disturbing number of high-profile, physical assaults on opposition newspaper journalists by unidentified assailants, and GOAJ officials have increasingly resorted to civil and criminal libel suits against opposition-affiliated journalists to silence criticism.

¶12. (C) We suggest you raise the following points in your meetings with the GOAJ:

-- The US firmly believes that democratic reform will strengthen Azerbaijan's stability and security. Continued democratic reform also is essential to our strategic partnership.

--The general trend of declining media freedom in Azerbaijan is tarnishing Azerbaijan's image in the USG. Backsliding on media freedom limits our ability to make progress on our security and energy cooperation.

--The 2008 Presidential election is an opportunity for the GOAJ to demonstrate the seriousness of its commitment to democracy. We urge the Government to ensure that these elections are conducted in a free, fair, and transparent manner that meets international standards.

#### Managing the Oil Boom

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¶14. (U) With GDP growth of 36%, Azerbaijan has the fastest growing economy in the world, driven nearly entirely by an unprecedented inflow of energy revenue. Azerbaijan's economic planning structures and judicial, regulatory and banking sectors are weak and ill-prepared to manage this enormous influx of revenue. Corruption is pervasive throughout Azerbaijan. Significant institutional reform and capacity-building will be required to manage the stable growth of Azerbaijan's economy and to prevent Azerbaijan from succumbing to the "oil curse" experienced by many other energy producers. The US is providing technical assistance to help Azerbaijan manage this transition, with advisors in the Ministries of Tax and Finance, anti-corruption programs, rule of law programs and a program to help strengthen the GOAJ's consolidated budgeting process. The February 7 inaugural session of the US-Azerbaijan Economic Partnership Commission (EPC) elevated the bilateral economic dialogue, and resulted

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in eight signed Memoranda of Understanding (MOUs) between the GOAJ and the USG in a range of sectors. Moreover, we believe the WTO accession process is the key vehicle through which we can promote GOAJ implementation of successful economic and political reform that will keep Azerbaijan's development on a stable path.

¶15. (C) We suggest you raise the following points in your meetings with GOAJ officials:

--Macroeconomic stability is critical to sustainable economic development and poverty reduction in Azerbaijan.

--The Economic Partnership Commission meeting in February 2007 raised our bilateral economic dialogue to a new level. I hope that the EPC serves as a economic coordination forum to

ensure Azerbaijan,s sustainable economic development.

--We look forward to working more closely with the GOAJ on potential WTO accession. The WTO is a key vehicle for institutionalizing economic reform and establishing Azerbaijan as a successful regional development model. The US. strongly supports Azerbaijan,s goal to accede to the WTO and is ready to provide technical assistance to the GOAJ in order to achieve this goal.

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